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ABSTRACT

This report contains the text of five briefings on research in Rand's Urban Policy Analysis program. "Brief History of Rand's Urban Policy Analysis Program," by Barbara R. Williams, discusses the changing Federal role in urban policy, problems encountered in Rand's attempt during the early 1970s to examine the central policy problems of cities at different points along the continuum of growth and decline, and the development of Rand's later interest in defining a conceptual framework for assessing Federal policy impacts. "Urban Policy: The Demographic Context," by Peter A. Morrison, examines urban population trends including population dispersal, migration patterns, and changing household composition. "The Urban Impacts of Federal Policies," by Roger J. Vaughan, describes a Rand study investigating the reasons why jobs and people have been leaving many cities and the role of Federal policies in this process. "Federal Response to Urban Economic Development Problems," by Georges Vernez, examines the characteristics and effectiveness of Federal programs providing assistance directly to cities or their residents. "Contributions to Urban Policy and Directions for Future Research," by Barbara R. Williams, discusses the contributions made by Rand's Urban Policy Analysis Program and suggests directions for future research. (Author/BE)

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RECENT CONTRIBUTIONS TO THE URBAN POLICY DEBATE

PETER A. MORRISON, ROGER J. VAUGHAN,
GEORGES VERNEZ, BARBARA R. WILLIAMS

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MARCH 1979

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
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PREFACE

This report contains the text of five briefings on research in Rand's Urban Policy Analysis program that were presented to Rand's Board of Trustees at their annual meeting on April 13, 1978. It begins with a brief history of the program; describes Rand research that is particularly relevant to the recent urban policy debate; and concludes with a discussion of the policy contributions of this research and of directions for future research.

Various portions of the research were funded by the National Science Foundation, the Charles F. Kettering Foundation, the Economic Development Administration, and the Department of Housing and Urban Development. Most of the work described here is contained in the following Rand reports:

R-2399-EDA, *The Changing Demographic and Economic Structure of Nonmetropolitan Areas in the United States*, K. F. McCarthy and P. A. Morrison, February 1979.

R-2372-EDA, *Federal Activities in Urban Economic Development*, G. G. Vernez, R. J. Vaughan, and R. K. Yin, with assistance of A. H. Pascal (forthcoming).

R-2205-KF/RC, *The Urban Impacts of Federal Policies:* Vol. 4, *Population and Residential Location*, R. J. Vaughan and M. E. Vogel (forthcoming).

R-2114-KF/HEW, *The Urban Impacts of Federal Policies:* Vol. 3, *Fiscal Conditions*, S. M. Barro, April 1978.

R-2028-KF/RC, *The Urban Impacts of Federal Policies:* Vol. 2, *Economic Development*, R. J. Vaughan, June 1977.

R-1353-NSF, *St. Louis: A City and Its Suburbs*, B. R. Williams, August 1973.

R-1352-NSF, *Seattle's Adaptation to Recession*, R. B. Rainey, Jr., K. Anna, A. W. Bonner, S. Crocker, L. A. Day, B. J. Hawkins, N. King, R. A. Levine, and D. A. Relles, September 1973.

R-1313-NSF, *San Jose and St. Louis in the 1960s: A Case Study of Changing Urban Populations*, P. A. Morrison, October 1973.

R-1235-NSF, *Growth in San Jose: A Summary Policy Statement*, D. J. Alesch and R. A. Levine, May 1973.

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I. BRIEF HISTORY OF RAND'S URBAN POLICY ANALYSIS PROGRAM

by

Barbara R. Williams

On March 27, 1978, President Carter announced a National Urban Policy. It contains the first official recognition that federal policies have sometimes made urban problems worse. In Rand's urban program, we have devoted substantial effort toward mapping that murky territory between the intended goals of federal policies and their often unintended outcomes in different locations. Our findings contributed to the urban policy debate preceding President Carter's announcement.

To bring you up to date on Rand's urban program and provide a context for the following briefings, I would like to sketch the history of the program against the background of changing federal policy environment from which research funds flow. Section V, the final section of this report, describes how our work and our staff have been drawn into the urban policy debate of recent months and suggests possible directions for future research.

THE CHANGING FEDERAL ROLE IN URBAN POLICY

Over the last 18 years, both the role of the federal government in urban policy and perceptions of what the "urban problem" is have changed significantly (see Fig. I.1).

During most of the 1960s, the federal government assumed the major responsibility for solving urban problems. It is fair to say that during that time poverty, inadequate housing, inferior schools, and rising crime rates were the principal concerns of urban areas (certainly of larger, older cities). Federal agencies, organized along functional lines for the most part, responded by initiating major programs to improve housing and education and to reduce crime. The programs often took the form of categorical grants that targeted aid locally according to federal priorities.

An interesting exception to the programs that addressed urban problems by functional areas was the approach to poverty, a problem that cut across functional lines and therefore demanded programs that did the same. Among other actions, this induced efforts to combine traditional social services with new programs so that problems of poor people could be treated as a whole.

The high hopes for those programs sagged, however, and their track record turned out to be modest. In the early 1970s, under the "new federalism" of the Republican administration, problem-solving responsibilities were shifted. Local problems were now believed to be most appropriately identified and treated locally; the federal role was limited to fiscal redistribution. Urban problems were defined somewhat differently as well. The recession of the early 1970s brought municipal fiscal strains into plain view. Continuing efforts to solve problems that plagued disadvantaged people were likely to be described as efforts to provide fiscal relief

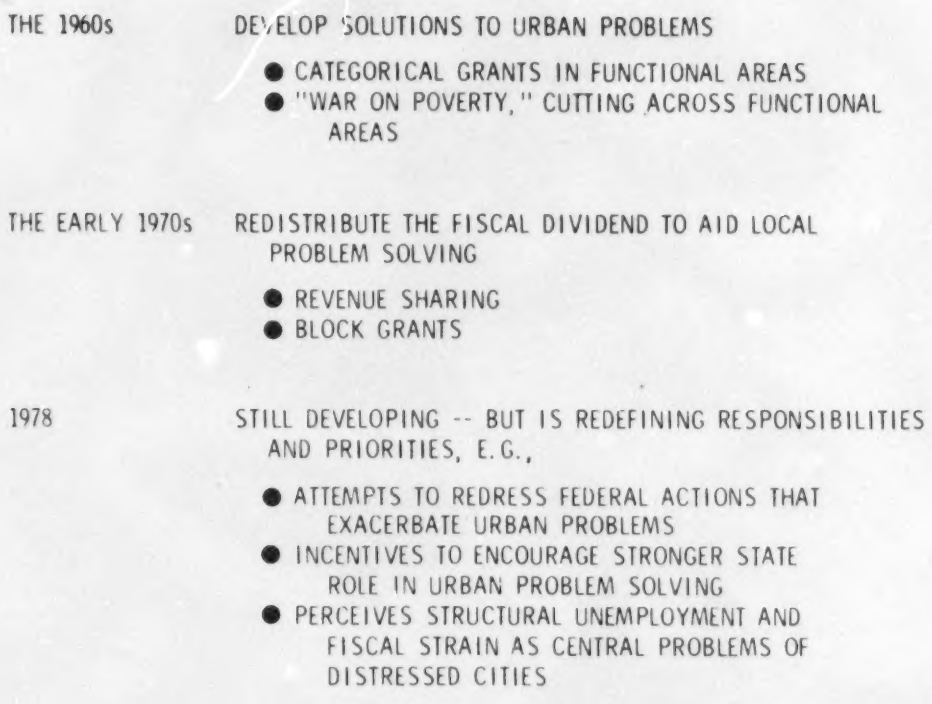
THE 1960s
DEVELOP SOLUTIONS TO URBAN PROBLEMS
● CATEGORICAL GRANTS IN FUNCTIONAL AREAS
● "WAR ON POVERTY," CUTTING ACROSS FUNCTIONAL AREAS
THE EARLY 1970s
REDISTRIBUTE THE FISCAL DIVIDEND TO AID LOCAL PROBLEM SOLVING
● REVENUE SHARING
● BLOCK GRANTS
1978
STILL DEVELOPING -- BUT IS REDEFINING RESPONSIBILITIES AND PRIORITIES, E.G.,
● ATTEMPTS TO REDRESS FEDERAL ACTIONS THAT EXACERBATE URBAN PROBLEMS
● INCENTIVES TO ENCOURAGE STRONGER STATE ROLE IN URBAN PROBLEM SOLVING
● PERCEIVES STRUCTURAL UNEMPLOYMENT AND FISCAL STRAIN AS CENTRAL PROBLEMS OF DISTRESSED CITIES

Fig. I.1—The changing federal role in urban policy

for hard-pressed municipal budgets. Revenue sharing (direct fiscal aid) and block grants (CETA and CDBG) to replace the older categorical grants were typical programs initiated in this period.

We cannot be sure yet about the new, recently announced federal role, but some interesting themes have emerged that suggest new definitions of responsibility and priorities. For example, the federal government now sees itself as part of the problem as well as of the solution. There are attempts to redress, where possible, federal actions that exacerbate urban problems—exemplified by a requirement that federal agencies develop urban impact statements. There are incentives for states to assume a stronger role in urban problem-solving. Structural unemployment and municipal fiscal strain are seen as the central problems that produce urban distress. Overall, the new approach seems a little less doctrinaire than earlier ones: No quick fixes are promised; the complexity of urban problems and their "solution" is recognized.

RAND'S URBAN PROGRAM IN THE EARLY 1970s

Rand's urban policy analysis program began in 1970, during the "new federalism" period. Then, as now, approaches to urban analysis were plentiful, for urban research is the province of many disciplines: demography, sociology, economics, political science, anthropology, geography, urban planning, and regional science, to

name a few. There has been little agreement about problem focus in the disciplines that study urban issues, however, and no small confusion about the appropriate unit of analysis (neighborhoods, central cities, cities, suburbs, metropolitan areas, regions).

Sociologists looked for causes and cures of crime, poverty, and racial discrimination; political scientists worried about municipal fragmentation; economists tried to devise theoretical models of the underlying dynamics of urban growth.

Under those circumstances, it is understandable that Robert A. Levine, the program's first director, wanted to develop a framework for analyzing urban problems systematically—a framework that would cut across the more traditional functional or structural approaches to urban analysis. After all, he had been Director of Research at the Office of Economic Opportunity, where the central attempt was to understand and reduce poverty by cutting across the older functional problem approaches.

Sponsored by the National Science Foundation, the program undertook studies of three very different cities—San Jose, California; St. Louis, Missouri; and Seattle, Washington—as the first in a series of case studies designed to examine the central policy problems of cities at different points along a continuum of growth and decline. Over time, these Rand studies were intended to yield a systematic understanding of cities and their problems that would clarify policy options for local decisionmakers and guide the development of urban policy at the national level. Some of you heard briefings of that work several years ago.[1] Today I will discuss some lessons we learned from those studies that have bearing on the program now.

In studying the three cities, we experimented with every one of the analytic approaches noted earlier and found nothing that tied the three analyses together. Nor did the three cities' local policy concerns provide a thread. All of them were different. San Jose at first emphasized its distaste for sprawl, but really wanted more effective pricing of municipal services; St. Louis was losing people and jobs and wanted to stop that flow; Seattle, after an impressive demonstration of economic resilience, wanted a better predictor of local/regional economic activity.

One observation stood out, however: Each local government tended to assume that its problems were mostly of local origin and looked to local solutions for them. This created a dilemma for us because, although all three cities sought better techniques (and more money) to solve their problems, our analyses were beginning to suggest that the solutions might lie outside local control.

Our analyses had led to the following tentative conclusions:

The problems in these cities (reflected in the abandoned buildings of St. Louis, the proliferation of tract housing in San Jose, and the unemployment rate in Seattle) arose from changes in the location and composition of population and economic activities.

The forces determining who located where and how fast seemed to stem mostly from market factors (changing technologies, rising incomes) and federal actions that influence private investment, such as tax incentives for home ownership.

We believed that federal "urban" programs (Model Cities, public housing, urban renewal) had less influence on private investment than did federal policies

[1] D. J. Alesch and R. A. Levine, *Growth in San Jose: A Summary Policy Statement*, R-1235-NSF, May 1973; R. B. Rainey et al., *Seattle's Adaptation to Recession*, R-1352-NSF, August 1973; and B. R. Williams, *St. Louis: A City and Its Suburbs*, R-1353-NSF, August 1973.

aimed at other goals. After all, if one aggregated, as we tried to do, the federal dollars flowing into those cities from agencies like HUD and LEAA, they seemed like peanuts compared with the amount of investment that could be stimulated by a tax incentive for home ownership, for instance, which could open the pocketbooks of well-off households all over the country.

But serious uncertainties remained. Like other researchers before us, we could think of several federal policies that gave suburbs a competitive advantage over central cities: federal subsidies to highway construction, FHA loan policies, deductions for home ownership. But there was always the possibility that other federal policies worked in the reverse direction. How did one select policies to examine? Did one go agency by agency, program by program looking for incentives—and incentives for what and to whom?

We tried to quantify some of the effects of federal policies on growth rates—interstate highways in St. Louis and tax incentives for home ownership in all three cities—but the numbers were not compelling. The question needed better specification, and we could not do that because we lacked a systematic way of thinking about federal policy effects on urban areas. It did not seem that additional case studies would help matters.

RAND'S URBAN PROGRAM IN THE MID-1970s

When the next phase of the program began in 1974, we remained interested in trying to figure out how to examine, systematically, the effects of federal policies on urban areas. But this was still the era of new federalism, and federal agencies preferred to fund research on techniques that would improve the ability of municipal governments to increase revenues and deliver services more effectively. They simply were not interested in analyses of the constraints under which those governments might be laboring, nor were local governments.

We received a small amount of funding from the Charles F. Kettering Foundation to develop a conceptual framework for assessing federal policy impacts. When we sought funding from federal agencies, we selected projects that had promise of addressing at least pieces of the problem. (We continued to analyze demographic trends, we did some theoretical modeling of residential location, we examined alternative formulae for revenue sharing.) We did not completely ignore local government policies: We did some studies of the pricing of municipal services for San Jose, and studied how local governments adopt new technology. But whenever possible, we chose projects that dealt with urban-related federal programs, as long as they didn't require large-scale empirical efforts. We felt the need to mine secondary data and develop better conceptual frameworks before going out to measure anything.

Our funding sources have been various: the National Science Foundation, the Charles F. Kettering Foundation, the Economic Development Administration (Commerce), and the Department of Housing and Urban Development.

Through a process I would call "selective opportunism," we have accumulated a core of research projects whose contributions, taken together, provide a systematic way of thinking about urban areas and urban problems, and of analyzing the effects of federal policies on those areas and problems. We began to publish our

reports just as a new approach to urban problems was being sought at the federal level. For the first time, Rand's urban program interests and federal policy interests coincided. The briefings that follow describe the work that has been most in demand during the urban policy debate.

II. URBAN POLICY: THE DEMOGRAPHIC CONTEXT

by

Peter A. Morrison

INTRODUCTION

A basic activity in Rand's program of research on urban issues is the analysis of population trends. We are interested in knowing how many people there are and where they are. This means keeping watch on birth and death rates and tracking people as they decide to move from one region to another and from city to suburb.

The past two decades have seen a basic shift in patterns of fertility and migration. In the early 1960s, both of these demographic forces favored city growth: The birth rate was high and rural population still streamed into the cities. The 1970s have been a different matter. Population growth has slowed, and people are now moving away from many cities.

This shift has produced an array of difficulties for public policymakers. Early experience has taught us, as a nation, a great deal about adjusting to the social and economic processes involved in population growth; but little in our experience has prepared us for coping with the consequences of population decline. And the signs are that shrinkage is sure to become an increasingly common affliction in urban areas.

Three aspects of demographic change are now shaping the fortunes of American cities, with unpredictable short-term results. One is deconcentration. People are still leaving central cities, as they have been doing for a long time, but now they are also leaving the older suburbs as well.

The second is the selectivity of this outflow. As the better-off people move out, their departure reinforces patterns of economic and racial separation among the less fortunate citizens left behind.

The third aspect is changes in the demographic structure and composition of households, which may stem the tide a bit by making city life attractive to some segments of the population— young couples without children, for example, who are concerned with the quality of housing, not schools, and working couples who want to live near their jobs.

URBAN ZPG: AN EMERGING PHENOMENON

Toward the end of the 1960s, the U.S. population entered a period of transition to zero growth. The fertility rate declined sharply, and it has hovered around a historic low in recent years (Fig. II.1). As for the future, my choice of the projections shown in the top half of Fig. II.1 is the middle one, which implies replacement-level fertility of 2.1 births per woman. (Of course, we must anticipate year-to-year fluctuations around this deceptively smooth trend, as economic conditions change.)

Lower fertility is a national phenomenon but it has been felt most intensely in the central cities and their suburbs, which together make up Standard Metropoli-

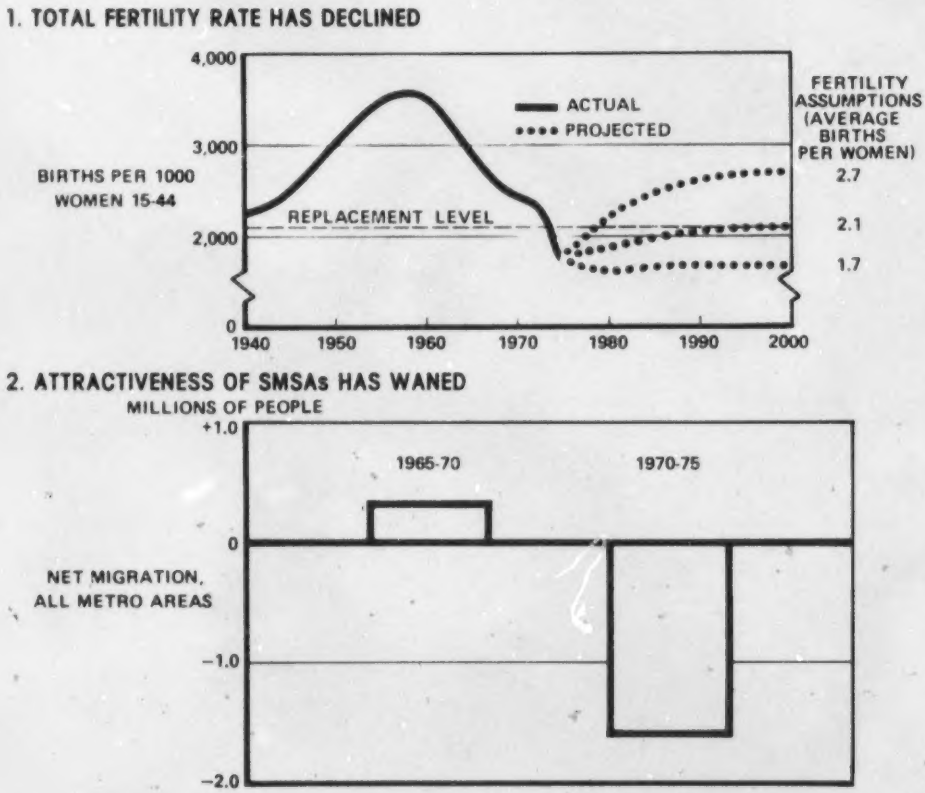

Fig. II.1—Demographic growth is moderating

tan Statistical Areas, or SMSAs. The overall slowdown in population growth from a lower birth rate has coincided with an apparent new distaste for urban living—or an old distaste that can now be indulged. The net flow of migration in the 1970s has been out of metropolitan areas, whereas in the 1960s migration was adding population to these areas, not subtracting from it (Fig. II.1, bottom half).

With fewer babies being added, and with migrants leaving SMSAs more often than they move to them, a number of metropolitan areas have stopped growing (Fig. II.2). A phenomenon that used to embrace only central cities now has spread to the metropolis as a whole. Since 1970, 10 of the 25 largest SMSAs have failed to register any significant population growth. Although only about one-sixth of *all* SMSAs no longer grow, fully one in three metro residents lives in one of these "no-growth" areas. (The very populous SMSAs are the ones that have most often stopped growing.)

Many of these areas are in the Northeast and Midwest, where "shrinking pains" have become commonplace. Ohio alone has six: Akron, Cincinnati, Cleveland, Dayton, Springfield, and Steubenville. It is easy to understand, then, why the Coalition of Northeast Governors, the Northeast-Midwest Economic Advancement Coalition, and other regional alliances have emerged in recent years.

Fig. II.2—42 SMSAs without growth, 1970-1975 (of 259 SMSAs defined in 1970)

A word of caution is in order here. The image of wholesale flight from the city is misleading when applied to an entire SMSA. Within a metropolitan area, many communities may continue to grow; and for some, growth may even accelerate. But the areawide pattern shows a rising incidence of zero growth (or decline) in metropolitan territory outside the central city.

POPULATION DISPERSAL

This halt in the growth of metropolitan areas is one facet of a general deconcentration of population. Migrants today are shunning large SMSAs in favor of small ones. Metropolitan areas like Lincoln, Nebraska, Lafayette, Louisiana, Tyler, Texas, and Colorado Springs have expanded in the 1970s, attracting new residents at an even faster pace than they did in the 1960s.

Indeed, the fortunes of metropolitan areas have been changing in quite opposite directions, depending on their size. This point is apparent in the top half of Fig. II.3, where annual population growth rates are compared: during the 1960s (solid bars) and during the 1970s (striped bars).

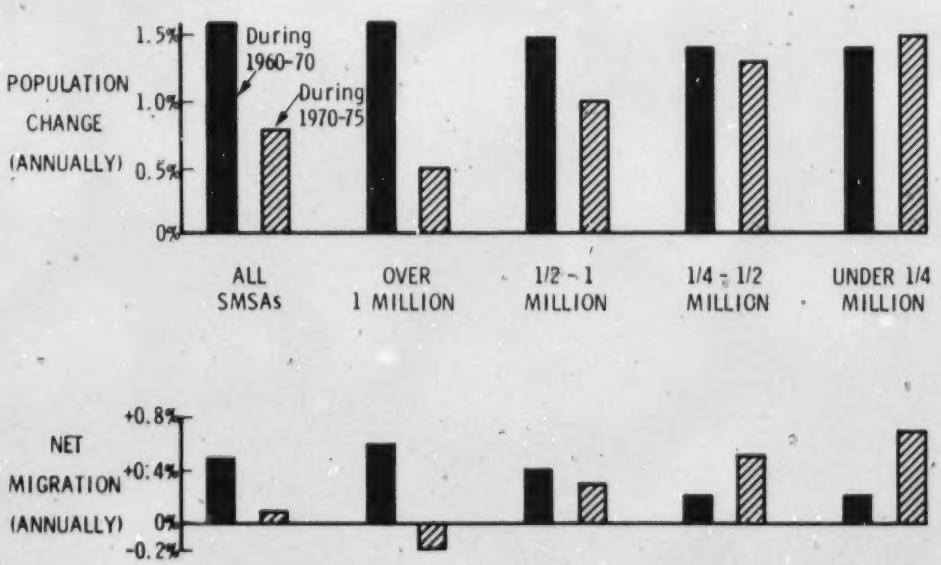

Fig. II.3—Metropolitan sector trends before and after 1970

For all SMSAs, regardless of size, population has increased about half as fast in the 1970s as it did in the 1960s. Notice, however, that the very large SMSAs have slowed the most. The smaller-size categories have been immune to this trend. Indeed, the growth rate in SMSAs with fewer than 1/4 million inhabitants actually accelerated in the 1970s—despite the lower birth rate.

Population growth is composed of two demographic components, of course:

natural increase (the excess of births over deaths) and net migration. Migration (shown on the bottom half of Fig. II.3) clearly accounts for this differential growth.

In addition to metropolitan deconcentration, two other forms of dispersal are under way (Fig. II.4). One is spillover, an extension of the traditional pattern of suburban growth to areas beyond the metropolitan fringe. The nonmetropolitan territory adjacent to existing SMSAs can be regarded as incipiently metropolitan, a loosely defined zone in which satellite cities are forming 50 or 100 miles away from a major metropolis.

- DECONCENTRATION: FROM LARGE TO SMALL METROPOLITAN CENTERS
- SPILLOVER: OUTWARD FROM EXISTING CENTERS INTO ADJACENT NONMETROPOLITAN TERRITORY
- "RURAL RENAISSANCE": INTO REMOTE AND TOTALLY RURAL SETTINGS

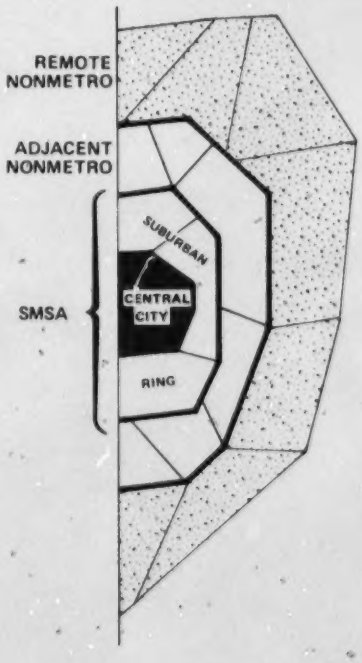

Fig. II.4—Three forms of population dispersal

The other form of dispersal is a new resurgence of growth in truly remote nonmetropolitan areas—the so-called "rural renaissance." This new (and surprising) trend is under way in a variety of settings throughout the nation. It is centered on such specialized activities as resource extraction (as in the Southern Appalachian Coal Fields), recreation (as in Northern New England), and retirement (as in the Ozark-Ouachita Uplands). The absolute number of migrants involved here isn't very large; but since the rural destinations tend to be sparsely populated in the first place, the *relative* impact of migration on these rural communities has been substantial.

POTENTIAL CAUSES OF DISPERSAL

Why has the dispersal of population from large SMSAs gained momentum? At

this point, we can only speculate, and several complementary interpretations have been suggested.

One interpretation is that many people really dislike big cities, and that transportation and communication technology together with more widespread affluence have diminished the constraints on where they can live. Incidentally, the waning attractiveness of large urban centers is not unique to the United States. Japan, Sweden, Denmark, Norway, and other industrially advanced nations have begun to register the same phenomenon in the 1970s.

Another interpretation focuses on the inadvertent influences of federal policy. When government agencies build highways, regulate energy prices, and impose environmental restrictions or regulations, they also redistribute employment growth and alter incentives for private investment. In the process, big cities may have come to be disadvantaged relative to small ones.

THE SELECTIVITY OF MIGRATION

So far, I have referred only to sheer population numbers, not to the kinds of people migrating. The outflow of population from declining cities has a predictable order of march: Affluent whites go first; the poor, the elderly, and minorities, if they go, go last. In the interim, the population that is left behind tends to consist more and more of the disadvantaged and, disproportionately, to have special needs. Problems of dependency and poverty, which are not exclusively problems *of* these shrinking cities, accumulate within them and clamor for solutions.

The most obvious and troublesome facet of this process is metropolitan racial separation. Some blacks are moving into the suburbs, to be sure, but most of them remain concentrated in large central cities; and as the cities' populations shrink, the concentration of blacks intensifies.

Nationally, blacks make up slightly under 24 percent of central-city dwellers, and the percentage has continued to rise in this decade. Part of the rise, as just noted, is due to the outflow of whites from central cities. But demographic differences between the black and white populations also are pushing this percentage higher, perpetuating the existing pattern of racial separation within metropolitan areas through a kind of "no-fault" segregation (Fig. II.5).

This perpetuation comes about partly because the black population, with comparatively more future parents, has intrinsically greater potential for growth in the places where blacks now live. Fully 29 percent of blacks in large central cities[1] are between 5 and 17 years of age (compared with only 20 percent of the comparable white population). And only 6 percent of blacks are 65 and older (whereas 13 percent of comparable whites fall within this age range).

These contrasting structural characteristics of the two populations mean that blacks, already disproportionately concentrated in the central cities of large metropolitan areas, will become even more concentrated there in the absence of other changes. That is, even if everybody suddenly stopped migrating, the black population would continue to grow faster than the white population, intensifying racial separation where it *now* exists.

[1] Specifically, the central cities of SMSAs with at least one million inhabitants. Figures here refer to age composition in 1974, the most recent year for which such data are available.

- BLACKS MAKE UP AN INCREASING SHARE OF CITY DWELLERS

  1970 ..... 21%
  1976 ..... 24%

- DEMOGRAPHIC FACTORS WILL PERPETUATE THIS TREND
  - FERTILITY RATE CURRENTLY HIGHER AMONG BLACKS
  - AGE COMPOSITION FAVORS FASTER BLACK GROWTH

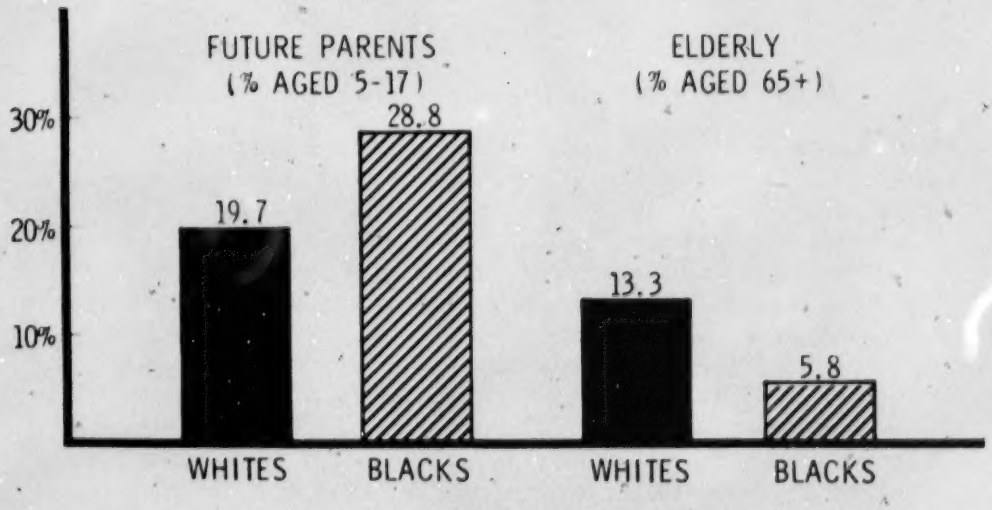

Fig. II.5—Age composition of whites and blacks in central cities

CHANGING HOUSEHOLD COMPOSITION

The final aspect of this demographic context concerns the structure and composition of households, the social units whose residential choices would be one object of urban policy. There has been a surge of new household formation since the late 1960s (Fig. II.6). The massive numbers of young adults born during the postwar baby boom have matured, accelerating the rate of growth in households as they have passed through the prime household-forming ages (roughly speaking, 20 to 30).

During this same period—the late 1960s and 1970s—the population's growth rate declined. Indeed, for the 1970-77 period, the population increased only about one-third as rapidly as new households were forming. (Obviously, this means that the average number of persons per household, therefore, is falling.)

Depending on which measure one chooses, a city like South Bend, Indiana, can be characterized as either growing or declining. Take households as the unit of

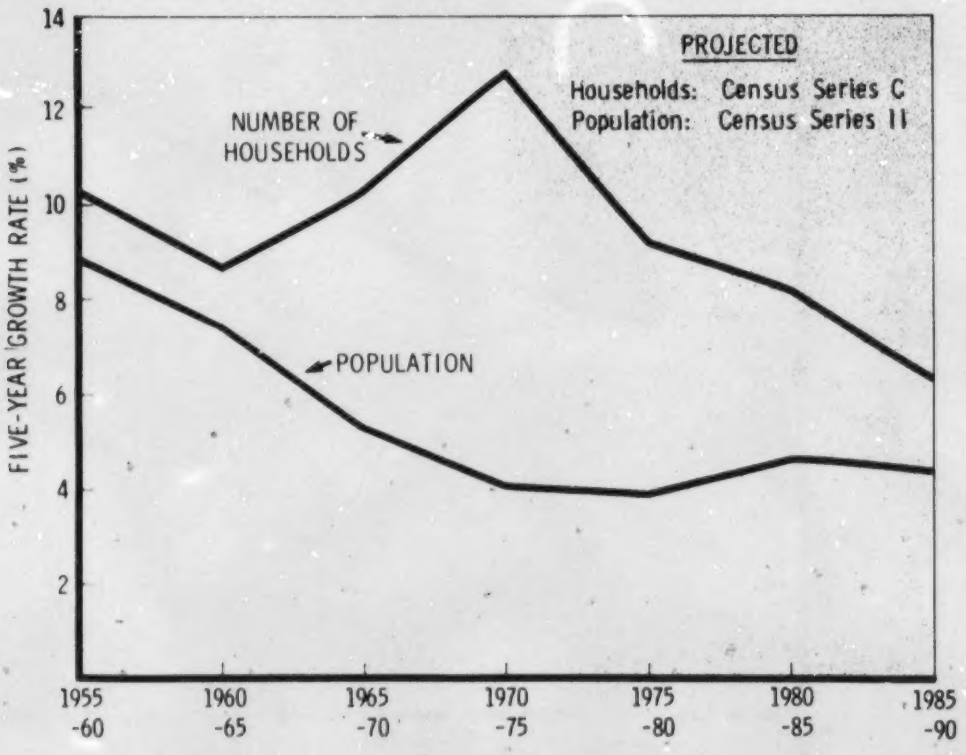

Fig. II.6—Contrasting growth rates: U.S. population vs. number of households

measure, and South Bend has grown roughly one percent annually since 1970; count people, and it has declined about one percent annually.

The sheer numerical increase in households has been impressive, but other demographic transformations are under way as well. Changes in household structure and composition are likely to modify the type of housing people seek, and where they seek it. A key issue for urban policy, then, will be to concentrate on those segments of the market to whom city living might naturally appeal.

One change in household structure is intertwined with the trend toward smaller families and changes in the division of labor within them. There has been a sharp increase in the number of wives who earn income, and in the closely related number of two-paycheck families (Fig. II.7). In 1977, 46 percent of wives were in the labor force, compared with only 24 percent in 1950. (Among today's working-age men, by comparison, 78 percent are in the labor force—about 10 percentage points *lower* than in 1950.

Families with at least two workers are the mode today, and this trend seems likely to expand in the years ahead. There has been a fundamental shift in the way that young wives order their careers as mothers and income earners. Wives are starting to work earlier in life and continuing to work after children arrive. Furthermore, their attachment to the labor force is more permanent.

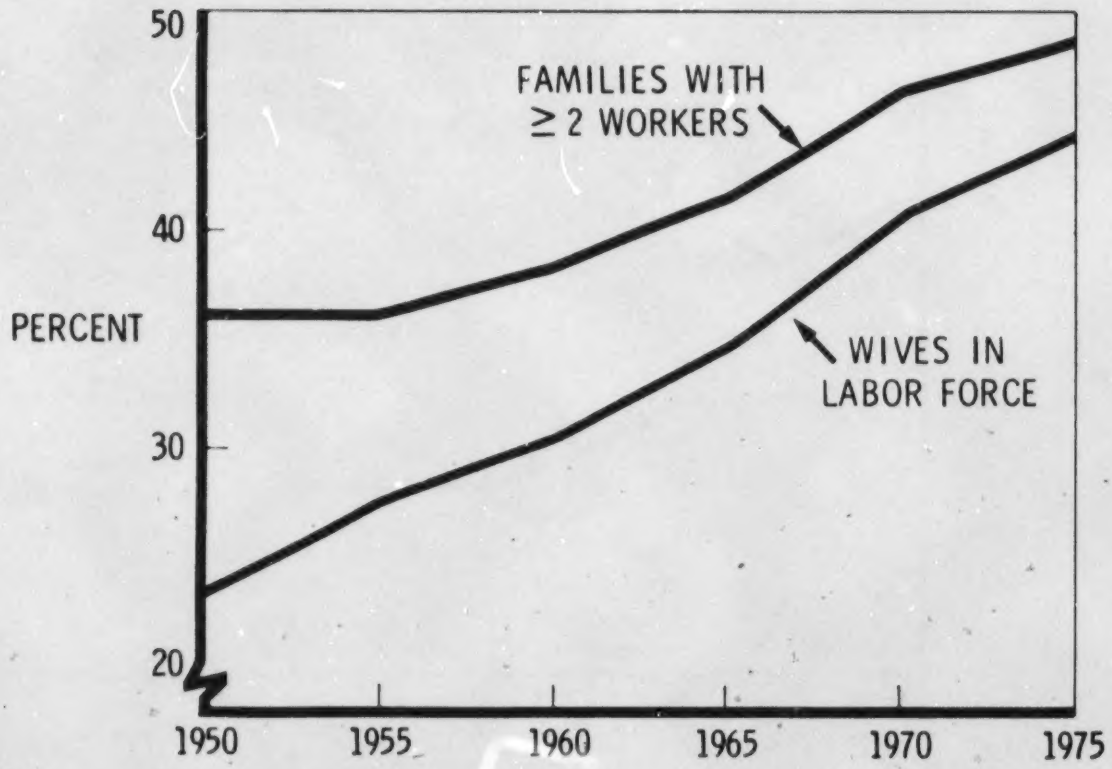

Fig. II.7—Families with working wives and two paychecks are rapidly increasing

Affluence, of course, allows people to purchase more spacious accommodations. In the past, affluence drew families to the suburbs, where they favored detached single-family houses. Many of today's households, though, are not families; and many of those that are have postponed childbearing or plan to forgo parenthood entirely.

As more and more families benefit from two incomes rather than one, and as some curtail their childbearing, urban policy will need to recognize emerging segments within the population that are attracted to city living.

A second structural change is manifested in new living arrangements among both the young and elderly. More and more young adults are choosing to remain single well into their mid-20s. They are setting up independent households after leaving their parental homes but before marrying and forming their own families. This is one reason for the sharp increase in so-called "nonfamily households"—those which are composed of people who live entirely alone or with people unrelated to them.

Living arrangements have changed among the elderly as well. Among its other social effects, changing household composition in cities reflects the disintegration of an earlier support system for the elderly. One indication is that whereas less than half of elderly widows in 1968 lived alone, about two-thirds do today. The extended urban family is giving way to new arrangements in which elderly persons increas-

ingly live alone, congregating in certain urban jurisdictions where they require a social support system including health care, public transportation, and the like.

American households, then, are becoming increasingly fragmented: The same living quarters are shared by fewer people, and many now live alone or in other kinds of nonfamily situations. Many of the younger adult households, moreover, benefit from the incomes of two adult workers.

IMPLICATIONS

What do these demographic shifts mean? It is easier to chart the changing demography of metropolitan areas or households than to forecast the results. Basically, these changes impose powerful constraints—on the *aims* of policy, and the *means* by which these aims can be realized.

First, we have to recognize that special kinds of needs arise in areas where population is declining. Policymakers are not conditioned to think positively about cities that no longer grow, and understandably so. Decline is not a graceful process and a natural response is an urge to reverse it. The Carter administration's new urban policy has this orientation.

But the underlying premise of such policies—that decline is an evil that can be, and ought to be, reversed—becomes suspect in the face of contemporary demographic change. Decline isn't going to go away, assuming (as I do) that there will be: (1) a continued dispersal of jobs and people away from large metropolitan areas, and (2) sustained low fertility leading eventually to national zero population growth.

What we can expect is an increasingly common need, in cities and suburbs alike, to adapt to an absence of growth—and it follows that we should learn to live with it, rather than work overtime trying to reverse decline wherever it appears.

Second, the concentration of blacks in large cities is likely to persist. A powerful demographic momentum is built into existing racial patterns within metropolitan areas. Urban policy will have to contend with the implications of this "no-fault" segregation (as well as the other more familiar type).

My final point concerns the local impact of changing household structure and composition, especially in areas that no longer grow. Different types of households continuously sort themselves out among jurisdictions within a metropolitan area. This sorting initiates a series of impacts on local public services: Some types of facilities (schools, for example) are underutilized; some kinds of people (especially the rising numbers of elderly) are underserved. This sorting process is extremely important when we consider that about one-fifth of the population changes residence every year.

The dislocations imposed by the selective redistribution of population are especially difficult in a nongrowing area. New York's suburban Westchester County is a typical illustration. During the 1960s, the county's population increased 10 percent; in the 1970s, it began declining. It no longer attracts young families as in the past, and what young families there are bear fewer children. Its elderly population is increasing.

The result has been a sharp decline in school enrollments, and a forecast of further decline in coming years. That means a reduction in state and federal funds

and, perhaps, teacher layoffs. But the many teachers who are tenured will limit the affected school district's capacity to shrink.

Apart from these explicit contracts, of course, other long-standing, implicit contracts prevail between a local government and the citizens it serves. Over the next 13 years, Westchester County planners foresee a surplus of about 50 neighborhood schools. They also expect about 50 local constituencies to agitate against closing them.

Indeed, the difficulty in closing an underutilized neighborhood school (or, for that matter, a neighborhood library or fire station or a local hospital) underscores the strength of these implicit contracts.

But public budgets lack fungibility: You cannot squeeze public dollars out of partially empty schools, and reallocate them to neighborhood centers for the elderly.

* * * * *

The demographic context I have described exerts influences that lie mostly beyond our control. Private choice prevails: People migrate where they please, and form households to suit their own individual needs. But private choices are subject to public influences, many of which are unintentional. As we all know, the construction of suburban beltways and the availability of mortgage insurance programs in the 1950s and 1960s profoundly influenced where families chose to live. In the 1970s, other federal influences—equally unintended—have come into play, and no urban policy can afford to ignore these influences.

III. THE URBAN IMPACTS OF FEDERAL POLICIES

by

Roger J. Vaughan

The *demographic* changes described in the preceding briefing have been paralleled by the deconcentration and suburbanization of economic activity. The dual exodus of jobs and people from large cities has been the cause of considerable concern.

There have been increasing demands for federal assistance for troubled cities, without a clear understanding of how that aid might be used effectively. Two questions need to be answered:

- Why have jobs and people been leaving many cities?
- What has been the role of federal policies in this process?

The Charles F. Kettering Foundation asked Rand to undertake a study of how federal programs and policies affect urban conditions. The emphasis was on how policies may have inadvertently influenced economic development, population growth, and fiscal problems in cities.

The immediate problem confronting such a task is the vast array of federal policies that might conceivably influence cities, and the many ways in which they can do so.

The challenge was how to *structure* this research undertaking in a way that would allow a systematic analysis of federal policy impacts. We viewed the study as having two goals: (1) to develop a conceptual framework relating federal action and urban outcomes; and (2) to synthesize, from a review of the relevant literature, what is known about these relationships.

This briefing first describes the framework that we have developed, and then presents some of our empirical findings.

CONCEPTUAL FRAMEWORK

The first step in developing the framework was to disaggregate the rather nebulous concept of the city into operational or analyzable sections. We chose to distinguish the local public sector, the local business sector, and the local residential sector (Fig. III.1). Each is inhabited by a distinct type of decisionmaking unit: the local government, the firm, and the household. Each sector determines a different set of urban outcomes and responds to different determinants and different federal policies, as well as to the actions of the other two sectors.

To identify the effects of federal policies on, say, the business sector, then, required us to identify the set of direct linkages between the subset of federal policies and the business sector; and second, to identify the indirect set of federal influences that acted through induced changes in the residential and the local public sectors. For example, how do changes in local taxes that may result from

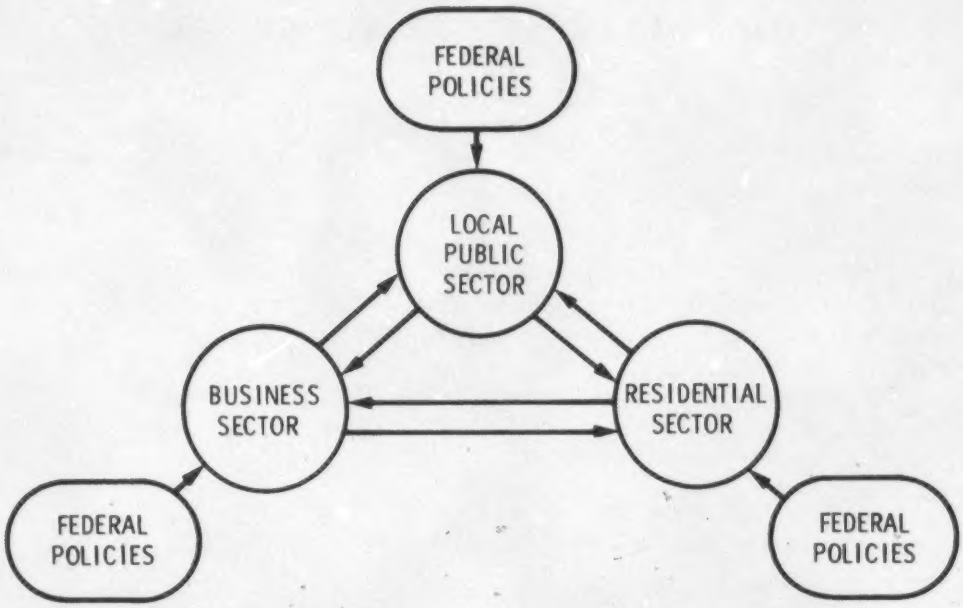

Fig. III.1—Conceptual framework

increased federal fiscal assistance to local governments affect the local business sector? How do changes in the distribution of population, perhaps resulting from federal housing policies, influence the distribution of employment?

We still faced the problem of how to identify these linkages. This was done in a three-stage analysis (Fig. III.2).

First, we identified the major outcomes in each sector, outcomes that reflect the behavior of that sector and are of concern to federal and local officials (right-hand column in Fig. III.2). For example, when we examine the effects of federal policies on the business sector, the main outcomes of interest are the levels and growth rates of economic activity: employment, wages, output, and investment. In the residential sector, the principal outcome variables are the size, composition, and spatial distribution of the population, and the quality of housing. In the local public sector, the major outcomes are the level and mix of public services and the magnitude and composition of the tax burden.

Next, we identified the determinants that influence these outcomes (middle column in Fig. III.2). For example, the extensive literature on economic growth has found that local employment growth is strongly influenced by the level and growth of the demand for locally produced goods and services, and by the price and availability of factors of production, including land, transportation, labor, energy, capital, and local public services. The latter shows how intersectoral links fit into this overall scheme.

Finally, by examining each determinant we were able to list those policies that we expect to be influential, including federal expenditure programs, relevant aspects of the tax structure, and regulatory activities (left-hand column in Fig. III.2).

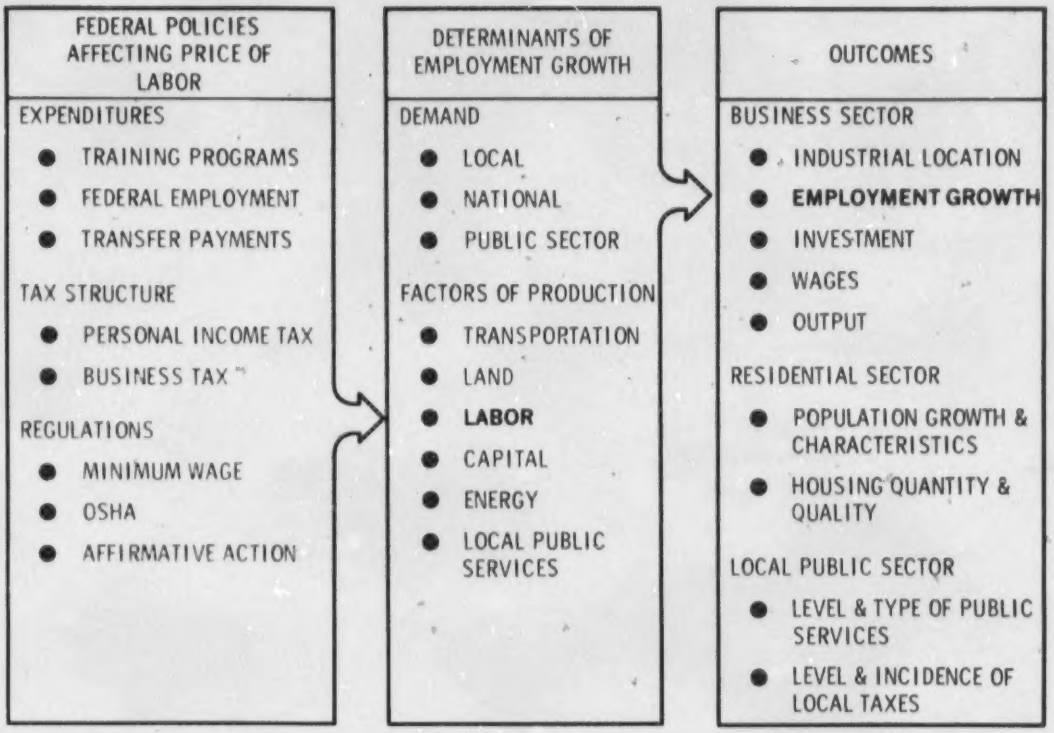

Fig. III.2—Illustration of three-stage analysis

For example, the price and availability of labor are influenced by federal transfer payments, such as welfare and unemployment payments, by training programs, and by direct federal hiring—all of which involve direct federal outlays. Both the personal and business tax structures also influence the operation of the labor market: Personal income taxes affect willingness to seek employment, while business taxes affect the cost of labor relative to capital. Such regulations as the minimum wage law, safety and health requirements, and affirmative action measures also affect business hiring decisions.

We undertook this analytic process for each of the outcomes in each sector. It soon became apparent, however, that our ability to identify the determinants of behavior differed significantly among sectors. The analytic models for employment growth and industrial location are relatively well developed, but less is understood about the determinants of residential location, and very little is understood about the factors that influence local government decisionmaking. Thus, the tasks for each of the three sectors differed. In analyzing the effects of federal policies on urban economic development, we were able to summarize the results of many relevant empirical studies, although, too often, we were able to identify only the direction, not the magnitude of the effect. In the public sector we were concerned primarily with defining the ways in which federal policies are linked to local public sector outcomes.

Within this structure, we were able to synthesize the findings of many studies that analyzed small pieces of the overall network, even though few dealt directly with the effects of federal policies.

For example, to connect federal transportation policies with regional shifts in employment, we put together a considerable body of studies that linked these policies with changes in transportation costs, and a second body of research that has related transportation costs with the distribution of economic activity. This process naturally involved evaluation of the quality of conflicting studies.

The results of the study are contained in four reports. Three describe the effects of federal policies on each of the three sectors, and the fourth is an overview of the whole study.

FINDINGS

To illustrate what we have found out about the influence of federal policies on cities, I will return to two of the trends discussed in the preceding briefing, and describe, first, how government policies have influenced the deconcentration of employment; and second, how they have influenced the growing concentration of poor minorities in central cities. Finally, I outline some interesting findings about the links between the sectors.

Before turning to specific findings, one observation should be made. *We have found that federal policies, taken together, have contributed to those trends but have not been the major influence.* Other factors have been more powerful: market forces, including changing techniques of production (e.g., air conditioning, linear flow plants, and a rapid decline in the costs of data transmittal, storage, and processing), rising real incomes, birth control, and changing tastes.

Decentralization of Employment

Federal policies have encouraged the movement of jobs and people from the Northeast toward the South and West, and from central cities to suburbs and even nonmetropolitan areas. They have done so largely through implicitly or explicitly favoring growth and new development over rehabilitation and repair. This bias runs through expenditure policies, the tax structure, and even regulatory policies. The result has been that firms in growing areas have been favored over those in more established areas, allowing them to expand more rapidly, and some firms have been encouraged to move away from older central cities into the more favored areas.

Regional Shifts. The rapid growth of the South and West, at the expense of the slow-growing Northeast, has received considerable assistance from the federal government, some intentional and some inadvertent (Fig. III.3).

The most obvious assistance has been through a number of expenditure programs, including the interstate highway system, which involved substantial interregional subsidies and without which many areas in the South would remain inaccessible; the rapid growth of defense payrolls in the South and West; and massive Corps of Engineers waterway projects that also have opened up many Southern cities to the benefits of international trade.

- EXPENDITURES

  REGIONAL PATTERNS OF EXPENDITURE HAVE ENCOURAGED GROWTH IN THE SOUTH AND WEST, INCLUDING:

  - HIGHWAYS
  - DEFENSE PAYROLLS AND CONTRACTS
  - CORPS OF ENGINEERS PROJECTS

- TAX STRUCTURE

  BUSINESS TAX STRUCTURE HAS SUBSIDIZED NEW CONSTRUCTION RELATIVE TO REHABILITATION

- REGULATION

  FIRMS HAVE GROWN MORE RAPIDLY IN THE SOUTH AND WEST BECAUSE:

  - TRANSPORT REGULATION HAS ENCOURAGED FIRMS TO MOVE CLOSER TO MARKETS
  - REGULATION OF NATURAL GAS PRICES HAS LED TO CURTAILMENT OF COMMERCIAL SUPPLIES IN THE NORTHEAST.

Fig. III.3—Effects of federal policies on regional deconcentration of employment

For these major programs, economic development was the intended, if secondary, goal.

Other national policies, however, including aspects of the tax structure and certain regulatory activities, have strongly affected regional economic development even though that has not been a primary goal.

The tax structure has favored growth in three ways. First, investment in new construction has traditionally been granted more generous tax deductions than comparable investment in rehabilitation, although this differential was substantially reduced in the Tax Reform Act of 1976; second, tax-free industrial development bonds reduce the cost of infrastructure construction necessary for new expansion; and finally, investment tax credits subsidize expansion in already growing areas where most investment is undertaken.

There is some evidence that certain regulatory activities have also, unwittingly, affected the spatial distribution of employment. For example, regulation of interstate prices of natural gas at a price below the market rate has led to curtailed supplies in the Northeast. This has encouraged firms that are heavy users to relocate in gas-producing states where supplies may be guaranteed, albeit at a higher price.

Transportation rate and route regulation has also led to decentralization by raising the cost of long-haul relative to short-haul transport. This cost differential has resulted from, first, umbrella pricing, which has reduced the ability of railroads to offer attractive rates, and second, from the actual structure of regulated rates which involve substantial cross-subsidization, and from the implicit disincentives to introduce cost-saving innovations. The regional distribution of manufacturing plants now matches the distribution of population more closely than ever before.

Suburbanization. Many of the factors that have encouraged regional deconcentration have also encouraged the rapid growth of employment in suburban or even nonmetropolitan areas, and the movement of firms out of central cities (Fig. III.4). Again, the basic mechanisms have been implicit and explicit subsidies to new investment. Federal grants have been available for road construction, industrial parks, the sewering of land, and even for rural electrification.

- EXPENDITURE

  FEDERAL GRANTS HAVE REDUCED THE COST OF SUBURBAN INDUSTRIAL DEVELOPMENT

- TAX STRUCTURE

  FIRMS HAVE BEEN ENCOURAGED TO MOVE TO SUBURBAN AREAS WHERE LAND IS LOW PRICED BY:

  - EXCLUSION OF LAND AS DEPRECIABLE ASSET
  - FAVORABLE TREATMENT OF CAPITAL GAINS

- REGULATION

  COMPARATIVE ADVANTAGE OF CENTRAL CITIES IS ERODED BY:

  - FREIGHT REGULATION THAT HAS FAVORED TRUCKING OVER RAILROADS
  - EPA REGULATIONS THAT MAY RAISE THE COST OF MAINTAINING EXISTING CAPITAL RELATIVE TO NEW INVESTMENT

Fig. III.4—Effects of federal policies on suburbanization of employment

Perhaps the most important influences have been inadvertent, however. For example, the tax structure has encouraged manufacturing plants to move to areas where land is cheap, typically suburban or nonmetropolitan locations. In computing business tax liabilities, land cannot be treated as a depreciable asset. Consequently, firms seek to locate in areas where land prices are low but are expected to increase over time. Second, the favorable treatment of capital gains relative to corporate income has led firms to purchase large sites in areas where land prices are rising.

Regulation may also be influential. Umbrella freight-pricing policy has hastened the decline of the railroad (once a major attraction of central cities) and the rise of trucking, a transition that many older cities were ill equipped to make.

Environmental and safety regulations have imposed very large costs on industry. Compliance with environmental regulations is often much more difficult in older central cities than in newer, less dense, small cities and in suburban areas. New equipment can usually be modified at less cost than older equipment.

Concentration of the Poor in Central Cities

Besides influencing the distribution of jobs, federal policies have contributed to the growing concentration of the poor and minorities in central cities (Fig. III.5).

POLICIES ENCOURAGING THE OUTMIGRATION OF THE NON-POOR

- FAVORABLE TAX TREATMENT OF HOMEOWNERSHIP HAS ALLOWED HOUSEHOLDS TO MOVE TO THE SUBURBS
- FHA AND VA MORTGAGE GUARANTEES HAVE FAVORED NEW HOUSING
- SCHOOL DESEGREGATION THROUGH BUSING MAY HAVE LED TO WHITE FLIGHT TO THE SUBURBS.

POLICIES DISCOURAGING THE POOR FROM LEAVING CENTRAL CITIES

- PUBLIC HOUSING HAS BEEN CONCENTRATED IN CENTRAL CITIES
- FHA BUILDING CODES HAVE DISCOURAGED THE CONSTRUCTION OF NEW LOW-COST HOUSING
- ABSENCE OF A UNIFORM WELFARE SYSTEM HAS DISCOURAGED POOR FROM LEAVING CITIES THAT OFFER HIGH BENEFITS.

Fig. III.5—Effects of federal policies on the concentration of the poor in central cities

They have done so both by encouraging the outmigration of affluent households and by discouraging the outmigration of the poor. The latter effect has resulted from the tendency to help the poor "in place."

Federally funded highways have allowed urban boundaries to spread rapidly outward, utilizing the flexibility of the automobile. Sewer grants have reduced the cost of developing newly accessible land.

The tax treatment of homeownership has reduced the cost of homeownership for middle- and upper-income households. The tax laws allow deduction of mortgage interest and local taxes from personal income tax, and the nonimputation of housing services of homeownership in estimating taxable income. New homeowners have shown a marked preference for a spacious residential environment and have moved away from densely populated central cities.

FHA and VA mortgage guarantees, under which nearly one in four of all new homes have been purchased, have been limited to new housing, most of which has been suburban.

Finally, there is some evidence that enforced school desegregation through busing may have speeded up the suburbanization of white households.

Poor households have been discouraged from moving to the suburbs. Most public housing has been built in central cities. Homeownership subsidies for low-income households have generally been available only for very low-cost housing—as low as $15,000—not to be found in suburbs. Building codes have prevented the construction of cheap new housing in suburbs.

The absence of uniform welfare payments and eligibility criteria has led to the concentration of the poor in cities offering high benefit levels. There is no evidence that high benefit levels have encouraged poor households to move to a city—jobs have been the goal—but nontransferability and high benefit levels do appear to

have deterred those who have been unable to secure employment from moving to more promising labor market areas.

Intersectoral Linkages

Finally, let us examine the linkages between the business sector and the residential and local public sector. The findings are somewhat surprising and have important implications for the urban policy debate.

Jobs and People. The movements of jobs and people are closely interrelated. Household migration decisions are usually based on a desire to improve employment and income prospects, and firms locate where demand is growing and labor is available. For example, Detroit grew because of the location of the auto industry. (In contrast, Miami grew because of the climate; few of the elderly people it attracted were concerned about jobs there.)

Within this dynamic system, however, it appears that household migration may be more strongly influenced by such considerations as climate, clean air, and recreational facilities, than by firms' location decisions. *The result is that there has been a tendency for jobs to follow people rather than the reverse, a tendency reinforced by the transportation cost changes mentioned above.*

The implication is that local economic development efforts may not be successful if they focus entirely on trying to attract or retain businesses, and are not coordinated with efforts to attract or retain households who can stimulate local demand and provide skilled labor.

Local Public Sector and Business. Surprisingly, there is little evidence that local taxes are a major determinant of industrial location or economic growth. However, there is some evidence that less quantifiable aspects of the local public sector may be important, such as the rigor with which regulations are enforced and the attitude of local officials. Although this may be of some comfort to administrators in high-taxing locales, it also implies that the rather expensive tax holidays that some areas have offered to footloose businesses may not be an effective inducement. We must infer that tax incentives are not a very powerful instrument for influencing industrial location. In fact, many of the tax holidays offered by local governments act as a form of reverse revenue sharing—increasing federal business tax liabilities by $1 for each $2 of local taxes forgone.

CONCLUSIONS

The study has found substantial support for the initial hypothesis that urban economic development, patterns of residential settlement, and local fiscal conditions have been influenced, often inadvertently, by a broad array of federal policies.

In fact, this study's major contribution has been the systematic documentation of this simple hypothesis, and its implication that policymakers must review the whole structure of federal policy if they are to solve urban problems.

The most influential federal policies have not been that cluster of fiscally modest policies that we traditionally think of as urban—Model Cities or Mass Transit—but a much broader array that includes patterns of spending, the tax structure, and regulatory activities. The differential geographic effects of these policies often have

not been intentional, but inadvertent, a result of differences among urban areas in their economic structure, population characteristics, and fiscal conditions.

There is still a great deal that we do not know about how cities are affected by the complex array of federal activities. We must hope that, over time, our ability to anticipate the side-effects of proposed policies will grow as we improve our analytical tools and apply them to unfolding experience.

IV. FEDERAL RESPONSE TO URBAN ECONOMIC DEVELOPMENT PROBLEMS

by

Georges Vernez

The preceding briefing addressed the question of how federal policies inadvertently complicate urban problems. This briefing looks at the opposite: how federal policies help to alleviate those problems. The focus is on programs involving *direct* federal outlays to cities or their residents.

These programs are important: Federal grants to city governments account for up to a third of city revenues. For the 15 largest cities, federal aid has increased from 5 cents for each dollar raised locally in 1967 to 28 cents in 1976. The figure is estimated to reach 46 cents in FY 78, largely in response to the recent national recession.

Concerned that this rapid increase in federal aid might be working at cross-purposes, the Economic Development Administration funded Rand to undertake a comprehensive review of these federal grant programs. Our study centered on three major questions:

- What urban economic development problems might be alleviated by federal action?
- What existing federal programs address these problems?
- How effective have these programs been?

To answer these questions, we first identified four classes of problems, each of them rooted in distinct underlying causes: problems of places, of people, of jurisdictions, and of market failures.

A place problem may arise, for example, because of a shift in local comparative advantage; a people problem because of lack of training or work experience; a jurisdictional problem because of a disparity between the demand for services and the local jurisdiction's ability to provide them; and a problem of market failure because of externalities, such as air and water pollution.

Such problems are interrelated and may appear together in any area. The classification is useful, however, because these problems may appear with different intensity in different areas. Also, each of the first three problems has a different direct constituency. The constituency for place problems is the business community; for people problems, disadvantaged individuals or groups; and for jurisdictional problems, the local government.

We identified 131 federal assistance programs that address these problems. Among the major ones are the following:

- Community Development Block Grants (HUD)
- Urban Mass Transportation (DOT)
- Highway Construction (DOT)
- Comprehensive Training and Employment (DOL)

- General Revenue Sharing (Treasury)
- Wastewater Treatment Plants Construction (EPA)
- Public Works and Development Facilities (EDA)
- Small Business Loans (SBA)

Income maintenance, education, and housing programs are not included here. These large programs indirectly influence urban economic development, as suggested earlier, but their detailed examination lies outside the scope of the present study.

PROGRAM CHARACTERISTICS

In FY 1976 $31 billion was obligated to these programs, or about 10 percent of the federal budget (Table IV.1). In the following two years, federal obligations increased nearly by half, with the largest increases made to address problems of people (mostly because of added countercyclical programs) and problems of places (mainly because of increased funding for community development and highway construction).

Table IV.1

FEDERAL OBLIGATIONS DIRECTED TO CLASSES OF URBAN PROBLEMS FY 1976 AND 1978
(In $ billions)

Class of Problems	Obligations FY 76	Obligations FY 78	% Change, 76-78
Places	11.9	17.0	+42.7
People	7.8	15.7	+100.0
Jurisdictions	17.2	21.3	+23.7
Market failures	5.3	6.8	+27.8
Total	31.5	45.5	+47.5

NOTE: Individual items do not add to total because some programs are included in more than one class of problems.

Matching these programs against our four classes of problems, we examined the programs' structural characteristics in aggregate. In reviewing their legislative intent and history, rules and regulations, and available analyses and evaluations, we looked for their emphasis on long-run development, intended targeting, and possible overlaps and gaps. The following findings are of particular interest.

First, *federal assistance programs emphasize short-term relief rather than long-term development strategies in dealing with urban economic development problems.* Federal aid intended primarily for long-run economic development, in the sense of leveraging private investments, represents less than 10 percent of the total aid aimed at urban economic development problems. The balance is about

equally divided between relief programs and programs for which economic development is a secondary but often forgotten purpose.

Second, *these federal programs emphasize indirect rather than direct locational incentives to the private sector.* Less than two percent of the funds goes directly to the private sector; most of it is in the form of direct and guaranteed loans tending to favor growth areas.

Third, *there are no significant programs that provide incentives for the unemployed and disadvantaged to move to growth areas.* Instead, as suggested in the preceding briefing, the structure of federal social and housing policies may provide a disincentive for the unemployed and disadvantaged to relocate because they often provide assistance that cannot be transferred from one location to another.

Fourth, *there is little evidence of overlaps among programs.* Where potential overlap exists, as for instance between business loans administered by the Small Business Administration and the Economic Development Administration, it is generally resolved by differences in size and type of projects funded, or by differences in targeting among types or locations of cities.

Finally, *the roles of different levels of government are not clearly defined, and differ among programs and agencies.* States play a particularly ambiguous role. With the recent expansion of formula block and revenue-sharing grant programs, an increasing portion of federal aid is going directly to local governments, bypassing the states. Under these programs, states maintain only a coordination or consultation function. Under other programs, the states are either competitors for or distributors of federal aid.

PROGRAM EFFECTIVENESS

In examining the effectiveness of these programs, we relied exclusively on a review of existing impact and evaluation studies.

We found a great deal of uncertainty in the literature about the net effects of the programs, particularly regarding job creation and long-run economic development. This is largely because it is often difficult to identify "what might have been" in the absence of the programs.

Our major tentative conclusion was that large multipurpose programs have not successfully addressed more than one class of problems. Because of the importance of this finding, let me illustrate by an example. Federal countercyclical public service employment programs have two major purposes: (1) to stimulate the economy so as to provide jobs for the cyclically unemployed and disadvantaged—a people problem, and (2) to provide needed local public services—a jurisdictional problem. The literature suggests that local governments use a significant portion of the federal monies to hire workers they would have hired anyway, a practice that neither creates public jobs nor increases public services. In this case, the federal grant is used largely for local fiscal relief, either through tax reductions or avoidance of tax increases.

A second major conclusion is that programs fail to reach the disadvantaged when channeled through jurisdictions or places. For instance, public service employment programs channel federal funds to local government to create jobs for the unemployed and the disadvantaged. The available evidence suggests, however,

that local governments have the rational desire to hire the best qualified people and therefore do considerable "creaming" of applicants. The public works program administered by the Economic Development Administration is another example. Its purpose is to enable manufacturing activities already in or attracted to depressed areas to provide jobs for the unemployed and disadvantaged. Here again, the evidence suggests that the program does not effectively benefit the intended target groups, partly because higher-skilled in-migrants are attracted to the area and take the lion's share of the new jobs.

Because encouraging private investments or affecting their location is a major policy concern, three other findings on effectiveness are also of interest.

They suggest, first, that incentives for private capital investments—such as subsidized business loans—favor growth areas if they are not targeted on particular locations. And targeted or not, these subsidies typically benefit firms that might have invested without the subsidy.

Similarly, public works programs meant to encourage private manufacturing development in urban areas appear to increase local employment very little.

The unavoidable conclusion from these findings is that either current subsidies are not large enough to compensate firms for the external costs of locating in some areas, or the wrong type of intervention is being applied. No one can say which is true, because current understanding of firms' locational decisions is still inadequate.

CONCLUSIONS

Our mandate was to provide information and raise issues about the direct federal response to urban economic development problems. To conclude, I would like to raise three policy issues that are suggested by our aggregated analysis.

The first issue is whether the different problems of places, people, and jurisdictions should be addressed directly by different programs. We found that local jurisdictions receiving funds meant to solve people problems are likely to use part of the money for fiscal relief. And programs aimed at revitalizing places in order to aid the disadvantaged do not necessarily cause benefits to trickle down to the disadvantaged, and may even displace those groups. It appears that programs aimed directly at helping people help them more effectively than do programs aimed at the places or jurisdictions where they live.

The second issue derives from our two broad observations that large federal programs addressing urban economic development problems have not always been effective, and that we still have an inadequate understanding of the major factors that affect the behavior of businesses and local government.

These considerations raise the question of *whether urban policymaking should favor trying new programs on a small scale rather than large new programs of uncertain effect.* We think the following concepts might be explored in attempting to improve program effectiveness in alleviating problems of people, jurisdictions, and places, respectively.

In addressing problems of people, greater emphasis should be given to increasing the mobility and private-sector job opportunities of the low-income and unemployed. To this end, policies that would reduce the cost of labor to private and public

employers through some form of wage subsidy hold the greatest promise. For effective targeting, a wage subsidy can be tied to duration of unemployment or other worker characteristics, such as age or income. Because we know relatively little about the efficacy of a wage subsidy program, however, it might be wise to conduct experiments before formulating a full-fledged program.

In addressing problems of jurisdictions, we have seen that multipurpose block grant programs channeled to jurisdictions function in part as revenue sharing. These do not work very well as instruments for either fiscal assistance or redistribution. One possible remedy is to increase the funding level of general revenue sharing with a portion of program funds that may be appropriately intended to benefit the general public. Remaining funds could then be redirected to their primary objective of aiding or training the disadvantaged through clarification of targeting objectives and performance criteria.

As for addressing problems of places, we have noted that current programs may not go far enough to aid in redeveloping the economies of surplus labor areas. *Direct assistance to business may be needed instead of the indirect assistance currently provided.* Such location-specific incentives might take the form of more heavily subsidized business development loans or direct cash grants to businesses. Cash grants appear to offer the greatest potential, but would represent so radical a departure from federal policy that they are unlikely to be used.

The last policy issue derives more directly from the findings of our analysis of the urban effects of federal policies discussed in the preceding briefing. *The issue is whether the locational effects of federal policies should be explicitly considered in policy design.* We found some evidence that broad federal policies such as federal tax, housing, and regulatory policies may affect urban economic development more strongly than do direct federal assistance programs. Because these policies often have overriding sectoral objectives, it may be neither realistic nor desirable to bend them to serve predominantly urban development objectives. At least, however, it appears that policymakers should consider the collateral effects on cities of policies designed with other purposes in mind. If they do so, those effects could be rendered more intentional and beneficial instead of inadvertent and harmful.

V. CONTRIBUTIONS TO URBAN POLICY AND DIRECTIONS FOR FUTURE RESEARCH

by

Barbara R. Williams

We are gratified that our work has influenced the new national urban policy and perhaps, to a degree, some particular decisions. We are by no means lone pioneers in this field, however. Indeed, if we had been the *only* ones to discuss the inadvertent effects of federal policies, or the *only* ones to recognize the difficulties inherent in trying to help people by improving the places where they live, we probably would have had no policy audience at all.

Our work has been influential not so much in specific decisions as in helping to formulate a general approach to urban problems. This is especially true of the study of urban effects of federal policies. Many observers have noted the different locational effects of federal policies and contended that those effects received too little attention, but no one had systematic evidence of how it all worked. And many people have spoken dubiously of "urban" policies made outside of the Department of Housing and Urban Development, but their opinions carried little weight in the absence of systematic analysis.

Because we had performed systematic analysis, our staff and our published reports have been in brisk demand. We have been called on for briefings, discussions, testimony, and speeches by federal agency staff (especially EDA and HUD), and staff of the President's Reorganization Task Force at OMB and the Domestic Council; by Congressional groups and subcommittees; and by special interest groups (such as the National League of Cities and the Committee on Urban Economic Development).

These groups have been interested in our work not because we "have all the answers"—which we of course do not—but because we offer conceptual tools and information relevant to the frequently asked questions listed in Table V.1.

The Domestic Council and Congressional subcommittees have been most interested in the first two questions: "What problems should a federal urban policy address?" and "How to trace federal policy impacts?" We have not tried to answer the first question directly. Instead, we have usually stressed three ideas: (1) that it is important to distinguish among urban problems on the basis of who has them (people, places, jurisdictions) in selecting ways to solve them; (2) that a federal urban policy should not be conceived of as a set of decisions developed and carried out by a single agency, but as a great array of federal actions that affect urban areas, sometimes intentionally, sometimes not; and (3) that those effects are not uniform among and within urban areas, but rather give some locations a competitive advantage over others—and that, in our opinion, those locational effects should be taken into account in policymaking even if they cannot, for other reasons, be altered.

That type of discussion usually prompted the second question, in the reply to which our methods for analyzing federal policy impacts were useful.

Table V.1

CONTRIBUTIONS OF RAND WORK

Conceptual tools and *information* relevant to urban policy questions:

- What problems should a federal urban policy address?
- How to trace federal policy impacts
- How to target direct aid programs more effectively
- How to assess the potential success of federal interventions
- How to improve local development efforts

Executive agencies (especially HUD and EDA), as well as the President's Reorganization Task Force, were most interested in the third and fourth questions: How to target direct-aid programs more effectively, and how to assess the potential success of federal interventions. In response to the third question, we were able to provide detailed reviews of the major direct-aid programs (see Sec. IV), and again discussed the importance of distinguishing among problems of people, of places, and of jurisdictions in targeting programs.

In responding to the fourth question, we have mainly reiterated our conviction that only modest success can be expected from programs that often represent small investments pitted against powerful market forces. As evidence, we have supplied data on demographic trends, emphasizing, for instance, that not all neighborhoods can be rescued nor all cities made to grow, given the slowdown in national population growth.

Local government representatives and special interest groups, not surprisingly, ask the last question most often: How to improve local development efforts. They have been especially interested in two suggestions from the urban impacts study: (1) the possibility that, in some places, local development efforts might be more successful by developing amenities to attract new households than by building industrial parks to attract industry; and (2) that tax breaks do not appear to have much power in persuading footloose industries to locate in one place instead of another.

We are pleased with the progress we have made thus far, but we are eager to begin the next phase of the program. We feel a strong need to start putting our conceptual frameworks to work empirically. Many questions that arise from our past work are of interest to us, especially when they relate to other Rand research (Table V.2).

We are already doing empirical work on the first question. Having begun by investigating the federal response to urban economic development problems, we now hope to discover how *local* governments use those programs: how they organize themselves, how they relate to federal agencies, and how they coordinate different programs (if they do). We are presently doing case studies in five cities and will add 15 more over time.

Table V.2

QUESTIONS ON THE AGENDA FOR THE URBAN PROGRAM

- How do local governments use federal grants?
- How do population growth and economic growth interact?
- What are the locational impacts of regulatory policies?
- What are the dynamics of residential mobility, especially racial patterns?
- How do population and economic changes affect local fiscal behavior?
- How will trends in municipal labor relations affect the fiscal health of local governments?

The next question, "How do population growth and economic growth interact?" was raised by evidence in the literature concerning the relative strength of jobs and households as attractors of one another. We now want to analyze that relationship empirically.

Third, in our past analysis of the effects of regulatory policies on economic and population growth in different locations, we could deduce, at best, the direction of those effects, not their relative strength, and we could not always be sure of how direction varied by location. We would like to do empirical analyses of the locational impacts of selected policies (such as OSHA and EPA regulations), especially because that work could be related to work already undertaken or proposed in Rand's new research program on regulatory policy.

Fourth, our work on the residential effects of federal policies revealed the need for better analysis of the dynamics of residential mobility, especially racial patterns. Some interesting theoretical models about patterns of racial location have been devised but never tested empirically, and we have some ideas about how to test them. Such work would benefit from and contribute to Rand's past and present work in school desegregation.

The last two questions derive from our analysis of federal policy effects on urban fiscal condition. As discussed earlier, we found scanty data on the determinants of local government behavior. As a beginning, however, we have been able to develop a plan for analyzing empirically how population and economic changes affect local fiscal behavior, because Rand work in school finance has addressed similar questions regarding the fiscal behavior of school districts.

A strong connection to other Rand programs also exists in the last question concerning labor relations. For example, Rand has examined the fiscal implications of the military compensation system; and in Rand's Policy Center for Educational Finance and Governance, work is under way on the economic and organizational effects of teacher unions and teacher retirement systems. We would like to augment those bodies of work with analysis of the effects of municipal unions and retirement systems (for example) on local fiscal conditions.

But is there a market for all this work we would like to do? We believe so. For one thing, our past work is developing its own dynamic. Each new project we have

undertaken for EDA has been due to EDA's satisfaction with our previous work (both demographic and economic development analysis). We were recently asked to do an assessment of HUD's community development programs because of the expertise we accumulated from the urban impact analyses and the analysis of the federal response to urban economic development problems. Recently, NSF requested another proposal from Rand because they were pleased with our theoretical work on residential location which they had funded earlier.

HUD currently intends to fund a series of contracts in rather broad substantive areas of urban research and housing market research that will provide longer-term, predictable funding levels. One of the contracts will cover research in the area of public finance and economic development. Rand will be competing for that contract.

In sum, Rand's urban research interests are now in close enough step with federal policy interests that funding levels for the program in the near term will almost surely rise if we want them to. Our real challenge is to see if we can detect that next set of problems that concern no federal agency as yet but will be crying for attention perhaps five years from now.